



Dave Yost • Auditor of State



**MEDINA CITY SCHOOL DISTRICT  
MEDINA COUNTY**

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# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

Medina City School District  
Medina County  
140 West Washington Street  
Medina, Ohio 44256

To the Board of Education:

We have performed the procedures enumerated below, to which the Medina City School District Board of Education, Medina County, Ohio, (the District) agreed, solely to assist the Board in evaluating whether certain disbursements made on the District's behalf, by the Medina County Educational Service Center, (the ESC) and reimbursements made to the Superintendent during the period July 1, 2005 to March 31, 2013, were used for proper public purposes, were properly approved, were adequately supported, and were appropriately recorded and summarized in the District's financial statements and accounting records. The District's management is responsible for recording transactions; and management and the Board are responsible for complying with Ohio Revised Code requirements. This agreed-upon procedures engagement was conducted in accordance with the American Institute of Certified Public Accountants' attestation standards and applicable attestation engagement standards included in the Comptroller General of the United States' *Government Auditing Standards*. The sufficiency of the procedures is solely the responsibility of the parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

- 1. Summarize and reconcile total dollars provided by the District for services provided by the Medina County Educational Service Center (ESC) and disbursements made by the ESC on Districts behalf.**

**For the period July 1, 2005 through March 31, 2013, we will obtain a disbursement register from the District for all payments made by the District to the ESC.**

**We will reconcile the payments made by the District to the ESC's accounting records and determine the following:**

- Amount used for direct services provided by the ESC;
- Amounts paid to other vendors on the District's behalf;
- Amounts paid directly to the superintendent;
- Amounts retained by the ESC for future District services/expenses;
- Review agreement with ESC to see if on-behalf payments are proper per the agreement.

**1. (Continued)**

For the period July 1, 2005 through March 31, 2013, we obtained a disbursement register from the District for all payments made by the District to the ESC.

We reconciled the payments made by the District to the ESC's accounting records and determined the following:

**Summary of Medina City School transactions with  
Medina Educational Service Center  
July 1, 2005 through March 31, 2013**

Receipts:

County Service Plan Contract Payments from Medina CSD (net of transfers, credits and adjustments)	\$3,337,141
State Foundation allocations for Medina CSD	1,048,120
Other Direct Service Payments from Medina CSD	<u>2,619,234</u>
Total Receipts	\$7,004,495

Disbursements:

Amounts used for direct ESC Services	5,916,903
Amounts paid to other vendors on Medina CSD's behalf *	<u>947,128</u>
Total Disbursements	6,864,031

Receipts Over Disbursements	140,464
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Carryover balance, July 1, 2005	<u>60,638</u>
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Carryover balance, March 21, 2013	<u>\$201,102</u>
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\* Included in this amount was \$9,035 reimbursed by the Medina ESC to the superintendent.

We reviewed the Medina CSD and Medina ESC "County Service Plan" agreements. There were no provisions in these agreements related to the disbursement of carryover funds. Additionally, there is no formal agreement between the Medina CSD and ESC authorizing the ESC to disburse any funds to third parties on behalf of Medina CSD. We recommend provisions related to the use of "carryover" funds from the Medina ESC be incorporated in the District's annual "County Service Plan" agreement. Additionally, the Medina CSD should not allow the ESC to disburse its funds to third parties and should not allow the ESC to use its funds for any purpose other than for services specifically provided for in its "County Service Plan" agreement.

Note: On June 24, 2013, the Medina ESC adopted a policy *Educational Service Funds*. This policy indicates the ESC will not expend any operating funds on behalf of any client. Additionally, this policy indicates in situations where a client has an outstanding credit for services, the ESC will direct its treasurer to immediately reimburse the client for all amounts above \$25,000, unless the full amount is requested by the client, by September 1 of the next fiscal year. The ESC policy also requires the ESC Treasurer to ensure the client's governing authority, chief executive officer, and chief financial officer are provided with written notice of the outstanding credit and the deadline for tendering the same to the client.

**2. Review of payments made by the ESC on behalf of the District and directly to the superintendent.**

For each transactions identified in step 1 as payments made by the ESC on the District's behalf to other vendors and to the superintendent we will determine the following:

- The transaction was posted to the proper fund/account code and included in the annual expenditure fund total for the proper period;
- The transaction had proper level approval to pay per District policy;
- The transaction payee name and amount agreed with the names and amounts on the supporting invoices or other payment documentation;
- The transaction was for a proper public purpose and an obligation of the District consistent with District Policy and/or employment contracts;
- If applicable, verify the transaction was properly included in the District employees' annual W2.

We noted in step 1 during the period July 1, 2005 through March 31, 2013, the Medina Educational Service Center issued 247 checks totaling \$947,128 to other vendors and to the superintendent on behalf of Medina City School District. We reviewed each of these transactions identified for the following:

- **The transaction was posted to the proper fund/account code and included in the annual expenditure fund total for the proper period.**

None of these transactions were posted to the proper fund/account code or were included in the annual expenditure fund total for the proper period in Medina City School District's accounting records. For the ESC, these transactions were recorded in a special cost center of the General Fund in accounts for other purchased services, administrative and staff development, and services and training. The District should ensure all disbursements for District expenditures are recorded to the proper fund/account and in the proper period in the District's accounting records.

- **The transaction had proper level approval to pay per District policy.**

None of these transactions had proper level approval to pay per District purchasing policy. **Medina City Schools Administrative Guidelines Section 6320A - Purchasing** requires District personnel to complete requisitions for requested purchases and have these requisitions approved by the principal/supervisor. These guidelines also require the Treasurer's office to review the requisitions for proper account codes, and type and prepare a purchase order. The purchase order is then to be approved by the Business Manager, Superintendent, and certified by the Treasurer. We recommend the District adhere to its established Administrative Guidelines for all purchases.

We also noted 11 payments which included mileage reimbursement where neither the "to" nor "from" locations were documented. **Medina City Schools Administrative Guidelines Section 6320H - Mileage Reimbursement** requires personnel to document the travel date(s), "from" and "to" locations, and miles driven for mileage reimbursement requests. We recommend the District adhere to its Mileage Reimbursement administrative guidelines and not reimburse employees who do not document the required information.

**2. (Continued)**

- **The transaction payee name and amount agreed with the names and amounts on the supporting invoices or other payment documentation;**

We noted no exceptions.

- **The transaction was for a proper public purpose and an obligation of the District consistent with District Policy and/or employment contracts;**

We identified 5 items totaling \$3,870 which do not appear to be a proper public purpose and an obligation of the District consistent with District policy and related employment contracts. These items consist of the following:

1. On February 12, 2008 (check 34705), \$800 of gift cards from a local specialty food store were purchased by the superintendent with no apparent business purpose documented.
2. On April 15, 2008 (check 34936), the superintendent was reimbursed \$4,782 for travel expenses related to a conference in Orlando, Florida. We noted the conference dates were from March 28, 2008 through April 1, 2008. The expense reimbursement, however, included \$557 for a hotel room, taxes, meal, and parking for the night of April 2, 2008.

Additionally, we noted this reimbursement included a \$1,023 mileage reimbursement. We noted a Board member who attended the same conference airfare from Cleveland to Orlando was only \$284. Therefore, the Superintendent's preference to drive appears to have resulted in an additional \$739 cost to the District and does not appear to be a necessary cost for him to attend this conference.

**Superintendent's employment contract, June 9, 2006, Section 6 - Professional Growth of Superintendent** provides the superintendent a reasonable amount of time to attend various professional development conferences and allows for the payment of necessary fees and subsistence expenses. **Medina City Schools Bylaws & Policies - 3440 Job-Related Expenses** indicates professional staff members are expected to exercise the same care incurring travel expenses that a prudent person would exercise if traveling on personal business and expending personal funds. Unauthorized costs and additional expenses incurred for personal preference or convenience will not be reimbursed. Unauthorized expenses include but are not limited to alcohol, movies, supplemental insurance on rental cars, fines for traffic violations, and the entertainment/meals/lodging of spouses or guests.

3. On November 26, 2008 (check 35793), \$1,410 of gift cards from a local restaurant were purchased by the superintendent with no apparent business purpose documented.
4. On May 31, 2011 (check 39015), the superintendent was reimbursed \$1,012 for various expenses related to a trip to China and Vietnam related to his MBA program at Case Western Reserve University. Included in this reimbursement was \$277 for a seat upgrade to "economy plus." **Medina City Schools Bylaws & Policies - 3440 Job-Related Expenses** indicates unauthorized costs and additional expenses incurred for personal preference or convenience will not be reimbursed.
5. On October 14, 2011 (check 39473), the superintendent was reimbursed \$87 for candy and floral arrangements from a local grocery store. No apparent business purpose was documented.



## 2. (Continued)

In accordance with the foregoing facts and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public money illegally expended is hereby issued against Randolph S. Stepp, in the amount of \$3,870 and in favor of Medina City School District's General Fund.

Additionally, under Ohio law, any public official who either authorizes an illegal expenditure of public funds or supervises the accounts of a public office from which such illegal expenditure is made is strictly liable for the amount of such expenditure. *Seward v. National Surety Co.* (1929), 120 Ohio St. 47; 1980 Op. Att'y Gen. No. 80-074; Ohio Rev. Code Section 9.39; State, ex. rel. Village of Linndale v. Masten (1985), 18 Ohio St. 3d 228. Public officials controlling public funds or property are secondarily liable for the loss incurred should such funds or property be fraudulently obtained by another, converted, misappropriated, lost or stolen. Public officials will be liable if and to the extent that recovery or restitution is not obtained from the persons who unlawfully obtained such funds or property, 1980 Op. Att'y Gen. No. 80-074.

William Koran, Medina County Schools' Educational Service Center Superintendent approved (signed) the purchase orders and Michelle McNeely, Treasurer approved (signed) the purchase orders and the improper payments. Therefore, the following are jointly and severally liable for \$3,870: William Koran and his bond company, Travelers Casualty and Surety Company of America, and Michelle McNeely and her bond company, Travelers Casualty and Surety Company of America, in favor of Medina City School District's General Fund.

Our testing also identified several other expenditures in which the item's proper public purpose was unclear, as follows:

1. There were 3 payments totaling \$4,978 for two holiday and one retirement party at local golf courses and there were 14 payments totaling \$26,492 for purchases of food and refreshments for various in-service trainings. There was little documentation identifying who or how many were attending these functions, the cost per person, or an itemization of the costs involved for these functions. We recommend the District follow its established policies regarding the circumstances in which food and refreshment items may be purchased and should ensure documentation regarding the attendees, the cost per person, and function's purpose is provided.
2. There were 15 payments totaling \$7,809 reimbursed to an employee for expenses related to the "ACE Program" for at-risk youths. These expenses included various items including gift cards, food, and hotel stays. However, the participants in this program and exact nature of the related expenses were not always documented. The District should ensure all its expenditures are appropriately documented and paid in accordance with established board policies.
3. There were 22 payments totaling \$30,970 for reimbursements to the Medina County ESC for technology services. However, invoices for these expenses were not itemized documenting the exact nature of the services performed. The District should ensure all its expenditures are appropriately documented and paid in accordance with established board policies.
4. There was a payment for \$484 for the purchase of sweatshirts from a local vendor. However, an itemized invoice and list of the individuals or the school team the shirts were purchased for was not provided. We were therefore unable to determine what individuals received these shirts and for what purpose they were purchased. The District should ensure all its expenditures are appropriately documented and paid in accordance with established board policies.

## **2. (Continued)**

5. There were 84 payments totaling \$213,087 for consulting services from DSP Solutions. However, the invoices were not itemized and we were therefore unable to determine the nature of the services provided. The District should ensure all its expenditures are appropriately documented and paid in accordance with established board policies.
6. There were 4 payments totaling \$47,700 for consulting and training provided by RAO Business Coaching (aka The Growth Coach). However, documentation regarding the individuals who participated in these trainings secessions was not always documented. The District should ensure all its expenditures are appropriately documented and paid in accordance with established board policies.
7. There was one payment in the amount of \$172,011 to the U.S. Department of Education for the Superintendent's student loan balances. The only support was a screen print from the department's web-site and there was no detail as to the related expenses included in the balance. The District should ensure all its expenditures are appropriately documented and paid in accordance with established board policies.

Note: As of the date of this report, we are awaiting additional information from the U.S. Department of Education on the details of the \$172,011 amount paid. An addendum to this report will be issued by the Auditor of State, once the information is received.

- **If applicable, verify the transaction was properly included in the District employees' annual W2.**

We were unable to determine whether all or a portion of the \$172,011 payment to the U.S. Department of Education for the Superintendent's student loan balances should have been reported on the Superintendent's W-2 as income. Portions of this balance appear to relate to educational expenses the Superintendent incurred prior to his employment with Medina City School District. Additionally, we were unable to determine the specific expenses, courses, and program expenses included in this balance and were therefore unable to determine if these costs were a condition of the Superintendent's employment with Medina City School District and exempt from taxation pursuant to applicable IRS guidelines. We will refer this matter to the Internal Revenue Service.

## **3. Review expense reimbursements provided by the District to the Superintendent**

**For the period July 1, 2005 through March 31, 2013, we will obtain a disbursement register from the District for all expense reimbursement payments made by the District to the Superintendent and we will determine the following for these items:**

- **The transaction was posted to the proper fund/account code and included in the annual expenditure fund total for the proper period;**
- **The transaction had proper level approval to pay per District policy or employment contract;**
- **The transaction payee name and amount agreed with the names and amounts on the supporting invoices or other payment documentation.**
- **The transaction was for a proper public purpose and an obligation of the District.**
- **The transaction was not included in any other previous reimbursement or payment made by the District.**

### 3. (Continued)

For the period July 1, 2005 through March 31, 2013, we obtained a disbursement register from the District for all expense reimbursement payments made by the District to the Superintendent. We noted 56 such disbursements totaling \$18,556. We obtained the imaged voucher packages from the District and reviewed these items for the following:

- **The transaction was posted to the proper fund/account code and included in the annual expenditure fund total for the proper period.**

We identified 11 checks included reimbursements totaling \$505 for meals at local restaurants and were documented as being for meetings. However, these meals were charged to a purchase order established for travel expenses. We recommend the District establish a separate purchase order for administrative meeting/meal expenses instead of charging these items to travel. Additionally, to help ensure all meals expenses are for a "proper public purpose", the District should establish specific requirements regarding what constitutes a "meeting" and when food expenses may be incurred without related travel. Such procedures may include, but not be limited to, requirements for prior supervisor approval, attendees to sign-in, and for meeting preparers to have specific topic agendas.

- **The transaction had proper level approval to pay per District policy or employment contract.**

We identified 14 checks which included mileage reimbursements in which the "from" location was not documented. Additionally, we noted 6 checks included mileage reimbursement where neither the "to" nor "from" locations were documented. **Medina City Schools Administrative Guidelines Section 6320H - Mileage Reimbursement** requires personnel to document the travel date(s), "from" and "to" locations, and miles driven for mileage reimbursement requests. We recommend the District adhere to its Mileage Reimbursement administrative guidelines and not reimburse employees who do not document the required information.

Additionally, we noted 6 checks totaling \$1,545 for reimbursements for Medina Community Recreation Center memberships. Although these memberships were in accordance with the Superintendent's contract, they were not included on his W-2 as a taxable fringe benefit. **26 U.S.C. Section 1.61-21** requires consideration of whether employer-provided "fringe" benefits, such as use of government automobiles for private purposes, constitute taxable income to be reported and withheld upon. **IRS Publication 15-B (2013)** indicates you can exclude the value of an employee's use of an on-premises gym or other athletic facility you operate from an employee's wages if substantially all use of the facility during the calendar year is by your employees, their spouses, and their dependent children. Since the recreation center is available for use to the general public it does not appear to meet the exceptions of IRS Publication 15-B and should have been included as a taxable fringe benefit on the Superintendent's W-2.

This matter will be referred to the Internal Revenue Service.

- **The transaction payee name and amount agreed with the names and amounts on the supporting invoices or other payment documentation.**

We noted no exceptions.

### 3. (Continued)

- **The transaction was for a proper public purpose and an obligation of the District.**

We noted one exception. Check 591592 (1/9/2013) was a \$151 purchase of candles from a local gift shop for which no documented business purpose was documented. We also noted this purchase was charged to a purchase orders established for "reimbursement for refreshments".

In accordance with the foregoing facts and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public money illegally expended is hereby issued against Randolph S. Stepp, in the amount of \$151 and in favor of Medina City School District's General Fund.

Additionally, under Ohio law, any public official who either authorizes an illegal expenditure of public funds or supervises the accounts of a public office from which such illegal expenditure is made is strictly liable for the amount of such expenditure. *Seward v. National Surety Co.* (1929), 120 Ohio St. 47; 1980 Op. Att'y Gen. No. 80-074; Ohio Rev. Code Section 9.39; *State, ex. rel. Village of Linndale v. Masten* (1985), 18 Ohio St. 3d 228. Public officials controlling public funds or property are secondarily liable for the loss incurred should such funds or property be fraudulently obtained by another, converted, misappropriated, lost or stolen. Public officials will be liable if and to the extent that recovery or restitution is not obtained from the persons who unlawfully obtained such funds or property, 1980 Op. Att'y Gen. No. 80-074.

For check 591592, James Hudson, Treasurer approved (signed) the improper payment. Therefore, the following are jointly and severally liable for \$151: James Hudson and his bond company, Travelers Casualty and Surety Company of America, in favor of Medina City School District's General Fund.

- **The transaction was not included in any other previous reimbursement or payment made by the District.**

We noted no exceptions.

### 4. Review Credit Card Disbursements

**Review the transactions included in the District's December 2007 American Express Credit Card Statement for the following items:**

- **Authorization for approval to pay per District's policies or employment contract;**
- **Adequacy of supporting documentation,**
- **Proper public purpose**
- **Proper fund/account coding in the District's accounting records**
- **Exclusion from any amounts previously reimbursed or paid by the ESC.**

We noted the District had two American Express Credit Card Statements covering December 2007. One statement closing date was as December 7, 2010 and the other statement's closing date was as of January 11, 2008. We reviewed the transactions included in these statements for the following:

- **Authorization for approval to pay per District's policies or employment contract.**

We noted no exceptions.

**4. (Continued)**

- **Adequacy of supporting documentation.**

We noted no exceptions.

- **Proper public purpose.**

On December 12, 2007, we noted a purchase of 45 \$20 gift cards (\$900 total) from a local specialty food store, which had no apparent business purpose. We further noted that on February 12, 2008, there was an \$800 credit to the District's American Express credit card for the return of these items and then an \$800 re-purchase of the same items with Medina County Educational Service Center check #34705. The remaining \$100 was included in check #545471 paid by the District on February 28, 2008.

In accordance with the foregoing facts and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public money illegally expended is hereby issued against Randolph S. Stepp, in the amount of \$100 and in favor of Medina City School District's General Fund.

Additionally, under Ohio law, any public official who either authorizes an illegal expenditure of public funds or supervises the accounts of a public office from which such illegal expenditure is made is strictly liable for the amount of such expenditure. *Seward v. National Surety Co.* (1929), 120 Ohio St. 47; 1980 Op. Att'y Gen. No. 80-074; Ohio Rev. Code Section 9.39; *State, ex. rel. Village of Linndale v. Masten* (1985), 18 Ohio St. 3d 228. Public officials controlling public funds or property are secondarily liable for the loss incurred should such funds or property be fraudulently obtained by another, converted, misappropriated, lost or stolen. Public officials will be liable if and to the extent that recovery or restitution is not obtained from the persons who unlawfully obtained such funds or property, 1980 Op. Att'y Gen. No. 80-074.

For check 545471, Wallace Gordon, Treasurer approved (signed) the improper payment. Therefore, Wallace Gordon, and his bonding company, Westfield Insurance Company, are jointly and severally liable for \$100 in favor of Medina City School District's General Fund.

- **Proper fund/account coding in the District's accounting records**

We noted no exceptions.

- **Exclusion from any amounts previously reimbursed or paid by the ESC**

We noted no exceptions.

We were not engaged to, and did not conduct an examination, the objective of which would be the expression of an opinion on the District's receipts, disbursements, balances and compliance with certain laws and regulations. Accordingly, we do not express an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of management, those charged with governance, and is not intended to be, and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Dave Yost". The signature is fluid and cursive, with the first name "Dave" and last name "Yost" clearly distinguishable.

**Dave Yost**  
Auditor of State

September 25, 2013



# Dave Yost • Auditor of State

**MEDINA CITY SCHOOL DISTRICT**

**MEDINA COUNTY**

**CLERK'S CERTIFICATION**

**This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.**

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
OCTOBER 22, 2013**